Table 6: Total Communication Plant Owned by Interexchange Carriers Reporting to the FCC at end of 1996		
1996 Source: FCC	Billions of Dollars Total Communications Plant	Proportion of Plant Owned by Interexchange Carrier
AT&T	$32.94	58.94%
MCI	$14.62	26.16%
Sprint	$4.11	7.35%
WorldCom	$2.39	4.28%
Frontier	**$0.44**	**0.79%**
IXC	**$0.27**	**0.48%**
All Others	**$1.12**	**2.00%**
Total	$55.89	
FCC: Statistics of Communications Common Carriers 1997 Table 2-1		

The removal of the independent WorldCom may represent the most serious threat to the competitive provision of telecommunications bandwidth and capacity to the Internet. WorldCom owns the fourth largest fiber optic network, which was at the end of 1996 larger than all other smaller networks combined. Without vigorous competition from AT&T, GTE, and the Regional Bells the merger may create the conditions that foster tacit or overt collusion between WorldCom and Sprint in providing Internet Backbone services and transmission facilities under long term contracts.

The Internet service market is characterized by change, rapid growth, and ease of entry. However, some core antitrust questions arise at under girding network levels of the Internet market place. Does it make any sense to allow two of only four integrated interexchange carriers to merge, particularly, when the four account for 97 percent of the telecommunications network facilities? Does it make any sense to allow a merger between two of the three largest providers of Internet transmission facilities? Will the merger of WorldCom and MCI create a duopoly in the provision of national network services to Internet? Will the merger create conditions that allow the new company to dominate the Internet and exercise market power individually or in concert with Sprint? Or, will the new entrants that are currently deploying national fiber optic networks provide ample competition to keep competitive pressure on the two major providers? The answers to these questions and the federal and state governments responses to the answers may determine the future vitality of the Internet.

What are the Questions that Must Be Answered in Order to Decide Whether a Merged WorldCom-MCI Will Dominant the Internet?

What is the market structure of the Internet? WorldCom and MCI vigorously deny that there is a separate Internet Backbone market.[3] Most independent observers and WorldCom-MCI critics believe there is a separate Internet Backbone Provider market and that merger may create a company that will dominate that the Internet backbone market. The determination of the Internet's market structure may ultimately determine the outcome of the review process.

What is the appropriate measure of Internet market share and market concentration? Every independent market share estimate indicates that a WorldCom and MCI merger will create a highly concentrated Internet backbone market structure and is "likely to create or enhance market power or facilitate its exercise." Further analysis is warranted. The Justice Department and the FCC need to force WorldCom and MCI to fully disclose their Internet revenues, their interconnection backbone agreements, their peering agreements, their contracts with Internet Service Providers, their contracts with dedicated access customers, their administrative procedures and agreements at their Network Access Points, and their Private line, facility, and service agreement to provide telecommunications services to Internet Service Providers and Internet Backbone Providers. In addition, the FCC and the Justice Department should call upon the Internet engineering community to resolve disputes over traffic flow, traffic volume, ISP connections, and overall traffic patterns and what proportion the merged company would control. Possibly, Merit or some other NSF funded research center could provide these answers.

Does WorldCom's and MCI's control over IP addresses lock-in ISPs and create the conditions for the exercise of market power? This question can be answered by investigating whether most ISPs and dedicated access customers use Dynamic Host Configuration Protocol and if not how costly would it be for them to install it or a similar product. Again, this issue could be resolved with the assistance of engineers who are expert in IP address configuration and the associated costs in changing IP addresses.

Does the ownership of the two largest NAPs MAE East and MAE West, where other major backbone providers interconnect, confer any market power on WorldCom-MCI? Furthermore, does a single peering location occur because of network efficiency considerations, and if so, do these efficiency considerations provider the NAP with any pricing power? Or, since there is a relative proliferation of NAPs, is there relatively costless movement without any offsetting efficiency losses? Is the size of a NAP a source of market power arising from increased interconnection options or are there disadvantages due to increased congestion? Again, these question could be answered by engineers within the industry. Additionally, how different are the transit contracts are negotiated at the respective NAPs. Are they basically standard agreements or do they vary depending on the size and quality of the NAP? Since this information is not public available, hearings and investigations must force the disclosure of this information.

Has there been any overt or tacit collusion between WorldCom, MCI, and Sprint in signing interconnection agreements, canceling peering, or inhibiting peering? For those who believe they know that there is tacit collusion among the major Internet Backbone Providers, particularly, WorldCom, MCI, and Sprint; they should introduce their evidence into the FCC review process.

Will the merger of WorldCom and MCI create a duopoly in the provision of national network services to Internet? The core antitrust questions arise at the network levels of the Internet market place. Does it make any sense to allow two of only four integrated interexchange carriers to merge, particularly, when the four account for 97 percent of the telecommunications network facilities? Does it make any sense to allow a merger between two of the three largest providers of Internet transmission facilities? Will the merger of WorldCom and MCI create a duopoly in the provision of national network services to Internet? Will the merger create conditions that allow the new company to dominate the Internet and exercise market power individually or in concert with Sprint? Or, will the new entrants that are currently deploying national fiber optic networks provide ample competition to keep competitive pressure on the two major providers?

Conclusion

The Internet is too important to our national information infrastructure to chance that any one company dominating its future development. Before allowing the merger to proceed the Justice Department and the FCC must decide whether the merger is likely to create or enhance market power or facilitate its exercise. To make that decision, they must advance our knowledge of the economic structure of the Internet, which is totally inadequate. The secretive commercial culture of the Internet is ripe for the exercise of market power and prevents any public scrutiny of commercial practices. Only the government's subpoena power can apparently break through the culture of secrecy surrounding Internet's economic structure.

This study reviewed the public available evidence and used it to focus the questions concerning the issues in the merger case. Although these questions cannot be answered with precision, there is a prima facie case that the merger will severely threaten competition in the

Internet market. GTE's motion (2/5/98) deserves support. The FCC should require WorldCom and MCI to provide sufficient data to address competitive effects of the merger on the Internet market. Neither WorldCom nor MCI have provided sufficient data to demonstrate that the Internet backbone market should not be examined separately from the Internet access market. GTE rightly requests the WorldCom and MCI provide traffic data for their networks; revenue data from the various parts of the Internet market in which they participate; a list of the major competitors in the Internet backbone market and their relative market shares; any internal analyses differentiating between Internet backbone and Internet access providers; customer counts; and business plans with regard to: network upgrades and expansion; NAP upgrades and expansion; and peering, access, and interconnection agreements. After an appropriate period for public review of the new material, the Commission should then structure a new pleading cycle to ensure informed public comment.

[1] Increasingly traffic is exchanged by the large backbone providers at private peering points. This may also have implications for market leverage

[2] We, however, believe this is a secondary issue. The primary concern about the merger arises from the interconnection agreements.

[3] Ironically, WorldCom and MCI argue that they are just Internet Service Providers; one among thousands peers. This is ironic because last summer WorldCom's subsidiary UUNet lead the charge to end peering on the Internet.

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THE WORLDCOM/MCI MERGER: IS THE INTERNET AT RISK?

AGENDA

MARCH 13, 1998
Mayflower Hotel
Washington, D.C.

9:00 a.m. Registration

9:30 a.m. The $37 Billion Goliath
Morton Bahr, President, Communications Workers of America
Ralph Nader, Consumer Advocate

9:45 a.m. Internet Backbone Competition
Anthony Ruthkowski, Center for Next Generation Internet

Would a Merged WorldCom/MCI Dominate Interconnection?
Moderator: Eileen Appelbaum, Economic Policy Institute
Discussants: Brian Bartholomew, Working Version
Jeff Keefe, Rutgers University
Gordon Cook, *The Cook Report on the Internet*
James Love, Consumer Project on Technology

Audience Questions and Discussion

11:15 a.m. Break

11:30 a.m. What Impact will the Merger Have on ISPs and on Internet Consumers?
Moderator: James Love, Consumer Project on Technology
Panelists: David Holub, Vixie Enterprises
Sue Ashdown, Utah Association of Independent Internet Service Providers

Audience Questions and Discussion

12:00 Lunch

12:30 p.m. The Evolving Internet
John Curran, GTE Internetworking

Audience Questions and Discussion

1:30 p.m. Adjourn

"WORLDCOM/MCI MERGER: IS THE INTERNET AT RISK?" SYMPOSIUM

Bios of Opening Speakers

Morton Bahr has served as President of Communications Workers of America since 1985. He has guided the 630,000-member union through its most challenging era since its founding in 1938 and has made CWA the leading voice for professional, technical and information-age workers. One of the most influential figures in American labor, Bahr serves as Vice President of the AFL-CIO. Active in international labor circles, Bahr also serves as Vice President of the World Executive Committee of the Communications International, representing 4.5 million telecommunications, information and postal workers in 115 countries.

Ralph Nader is known as the nation's leading consumer advocate. Most recently, he has been a leading proponent of strict antitrust enforcement against Microsoft's anti-competitive practices in consumer software markets. Mr. Nader, who gained early fame for his crusades for consumer safety protection in the auto industry, has founded numerous consumer organizations, including Public Citizen, the Center for Responsive Law, and The Consumer Project on Technology.

Bios of Symposium Panelists

Eileen Appelbaum joined the Economic Policy Institute as Associate Research Director in 1991. Dr. Appelbaum previously was a Professor at Temple University. She received her doctorate in economics and has written and consulted extensively on high performance work systems. Her recent articles have appeared in *Industrial Relations*, *British Journal of Industrial Relations*, *International Labour Review*, and *Labour and Society*.

Sue Ashdown is the General Manager of Xmission, Utah's largest "small" Internet service provider, and Founder of the Coalition of Utah Independent ISPs. Xmission serves approximately 6,000 customers and is locally owned and operated. In 1997, Ashdown founded the Coalition of Utah Independent ISPs to represent Utah ISPs on important public policy issues.

Brian Bartholomew develops software products for the Internet and writes Unix system administration automation tools at Working Version in Cambridge, Massachusetts. Bartholomew's prior experience includes senior engineering efforts assisting the growth and development of a Boston ISP.

Gordon Cook has been editor and publisher of the *Cook Report on Internet* for the last seven years. He has been involved in computer networking since the early 1980s, completing an 18-month term at the Office of Technology Assessment in the early 1990s. Cook received a PhD in Russian history.

John Curran is Chief Technical Officer at GTE Internetworking and a leader in the development of the Internet. Launched last fall, GTE Internetworking provides enhanced internetworking capabilities for the benefit of its customers. The company is devoted to connecting various communities of interest more quickly and cost-effectively, helping customers to improve communications, increase employee productivity, enhance marketing and sales effectiveness, and strengthen partner relationships.

David Holub manages Support and Manufacturing at Vixie Enterprises in Redwood City, California. In addition to providing extensive engineering and consulting services, Holub has helped to develop core technologies that have contributed to the growth of the Internet. Prior to joining Vixie Enterprises, Holub founded a California ISP; led the state's first mid-sized ISP to become a certified local and long distance Telecommunications Carrier; and helped construct a network backbone that interconnects with over 100 other large and mid-sized ISPs.

Jeff Keefe is an Associate Professor of Labor and Employment Relations at Rutgers' School of Management and Labor Relations. Keefe's research on technical work, technology, and work organization has appeared in leading scholarly journals including *Brookings Papers on Economic Activity, Industrial Relations* and *Industrial and Labor Relations Review.* Earlier this week, the Economic Policy Institute released Keefe's paper examining the impact of the proposed WorldCom/MCI merger.

James Love is the Director of the Consumer Project on Technology (CPT). In addition to working on antitrust issues involving Microsoft, Love and CPT have been active in intellectual property, telecommunications, privacy and electronic commerce issues. Love also edits an Internet newsletter called *info-policy-notes* that is sent out over the Internet once or twice a week. Previously, Love served as Senior Economist for a large pension fund consulting firm and taught at Rutgers and Princeton Universities.

Anthony Rutkowski is the principal of NGI Associates, Director of the Center for the Next Generation Internet, and staff consultant to General Magic, Inc. An engineer-lawyer, Rutkowski provides Internet and new media consulting services for some of the world's pre-eminent corporations, agencies and leaders. Previously, Rutkowski served as Director of the Internet Society, Director of Technology Assessment in the Strategic Planning Group of Sprint International and as Counselor to the Secretary-General of the International Telecommunications Union in Geneva.

The Washington Post

March 11, 1998

Smaller Rivals Question MCI-WorldCom Merger Plan

By Mike Mills
and Rajiv Chandrasekaran
Washington Post Staff Writers

As shareholders of MCI Communications Corp. and WorldCom Inc. prepare to vote today on a proposed $37 billion merger, federal regulators continue a probe into whether a combined company would control too much of the Internet.

Critics contend it would carry more than 60 percent of data traffic on major Internet routes, an amount the companies deny. Whatever the regulators conclude, most analysts predict they won't stop the deal on antitrust grounds. But regulators might insist on tough guidelines that give competitors access to the network or even force the companies to sell off some Internet operations.

The issue comes down to the impact on people such as siblings Pete and Sue Ashdown, who run a small Internet service provider in Salt Lake City. General manager Sue Ashdown said that after shopping around they chose WorldCom's Fairfax Internet access company, UUNet Technologies Inc., as their connection to the global network. They went with UUNet "because of the good performance and because it was available at a price we could afford."

But they worry that a merger would reduce competition. "If the price were to go up, and we were not able to afford it, we'd be forced to choose a ... provider that was our second or third choice," said Ashdown, who worried that talking about the merger could affect her company's relationship with UUNet.

The Justice Department has asked MCI and WorldCom for information on the market impact of their proposed union. It also has sent out civil subpoenas seeking documents from other large Internet service providers, including GTE Corp., PSINet Inc., Sprint Corp. and International Business Machines Corp.

But the agency is only midway through its review and has not forwarded recommendations to antitrust chief Joel Klein. "The truth is, I haven't been involved," Klein said. "It's an ongoing investigation and I haven't been briefed."

The European Commission last week said it would extend its investigation of the merger based on concern over whether it would impede Internet competition in Europe.

The biggest challenge will be sorting out two prime complaints by critics. One is that the combined MCI-WorldCom would control upwards of 60 percent of all backbone Internet traffic worldwide. The other is that combining their networks would drive up prices that smaller service providers must pay to connect to the Internet.

"In a critical area, they're getting monopoly power," said Jamie Love, director of the Ralph Nader group

The Washington Post

March 11, 1998

Consumer Project on Technology in Washington.

He bases his contention in part on the companies' own past claims: MCI used to advertise that it controlled 30 to 40 percent of Internet traffic but now calls such measurements inaccurate.

"We have real problems trying to figure out how they came to those figures," said MCI Senior Vice President Vint Cerf. Some critics have tried to confirm that estimate by analyzing Internet routing data, but Cerf said that measurement is misleading because routing data is abbreviated to save computer memory and thus provides only a superficial glimpse at actual traffic patterns.

Cerf calls the business of providing Internet trunk line services highly competitive, among about 40 companies.

Moreover, Cerf said, several new companies are building competing fiber-optics data networks, including Qwest Communications International Inc. of Denver and Project Oxygen, a $14 billion global undersea fiber project being planned by more than 30 telecommunications companies.

WorldCom Vice Chairman John Sidgmore maintains that MCI and WorldCom's joint revenue from Internet services would account for about 20 percent of the market's revenue. "If we have 20 percent of the revenue, how could we possibly have 60 percent of the traffic?" he said. "We'd have to be idiots."

Because of WorldCom-MCI's perceived market power, some critics—particularly smaller Internet service providers—worry that the merger might lead WorldCom to renegotiate common "peering" agreements in the industry that allow companies to swap data traffic for free.

They raise the possibility that WorldCom and MCI could move to end those arrangements for small companies, forcing them into a relationship in which they must pay the merged firm for data transmissions.

"There are no plans at the moment to change that, but there are always questions of economics," Cerf said. "It depends on the amount of traffic being exchanged. If there is a big imbalance in the traffic flow ... the peering relationship may actually be costing [us] more than the benefit."

Sidgmore, however, said that if the merger goes through, WorldCom would "absolutely not" change its peering policy.

Even one of UUNet's largest competitors doubts that UUNet would be able to change peering agreements unilaterally. "The Internet has gotten too big and is growing too quickly for them to sustain a hold with those kinds of tactics," said John F. Kraft, a vice president at PSINet, a Herndon Internet company.

Staff writer David Segal contributed to this report.

The Washington Times
March 11, 1998

WorldCom merger with MCI is probed

By Doug Abrahms
THE WASHINGTON TIMES

The Justice Department has subpoenaed several telecommunications companies to gauge how much control a combined MCI Communications Corp. and WorldCom Inc. would exert over the Internet.

Spokeswoman Sydney Shaw confirmed that Sprint Corp. had received a subpoena from the department, which reportedly is investigating whether the combined MCI-WorldCom would have too much control of the computer network.

WorldCom agreed to buy MCI for $37 billion in the largest takeover in U.S. history last year. Shareholders from both companies are expected to approve the merger today, although the transaction still needs clearances from the Justice Department and the Federal Communications Commission.

The Wall Street Journal first reported the subpoena's yesterday. A spokesman for the Justice Department declined to comment on the issue, saying the agency still was looking at all the antitrust issues in the MCI-WorldCom merger.

"This [antitrust scrutiny] is not a surprise to us," said Jamie DePeau, an MCI spokeswoman. "This is the first time there has ever been a Hart-Scott-Rodino [antitrust] look at the Internet."

A combined MCI-WorldCom would only account for 20 percent of all Internet-traffic revenues, she said.

But GTE Corp. — which also was subpoenaed — and others say the two companies jointly would control at least half of all Internet traffic.

The Justice Department has actually crafted a weeklong test using the major Internet carriers to measure Internet traffic patterns, said William Barr, former U.S. attorney general and GTE's general counsel.

"It should be the most comprehensive analysis of the Internet" conducted by antitrust officials, he said.

A single company controlling so much Internet traffic could affect both price and service quality, Mr. Barr argued. Sprint, with a 15 percent share of the market, would be the second-largest Internet backbone provider.

Antitrust regulators for the European Union said last week they were expanding their investigation into the merger because of MCI-WorldCom's control over Internet traffic.

An Economic Policy Institute Study released yesterday placed MCI-WorldCom's market share of Internet long-distance business at between 48 percent and 68 percent. Measuring one company's control of the Internet is difficult because cyberspace is really a network of networks, said Jeff Keefe, a Rutgers University professor who wrote the study.

"The only people who can figure this out is the Justice Department," Mr. Keefe said.

The New York Times

March 11, 1998

2 Corporate Cultures Meet in MCI-Worldcom Merger

By SETH SCHIESEL

Reuters

Bert C. Roberts Jr., left, chairman of MCI, and Bernard J. Ebbers of Worldcom want to create one of the world's most powerful communications companies.

When the directors of the MCI Communications Corporation and of Worldcom Inc. dined together last Tuesday evening, the contrast between the two boards was stark.

"The MCI board is much older, more corporate almost; it has two women and an African-American," said one person who was present where the dinner was held, at MCI's headquarters just down Pennsylvania Avenue from the White House. "It's like you'd think a board would look like.

"The Worldcom board is all entrepreneurial-type guys that came with the acquisitions," the person said. "The difference is almost funny."

The challenge of integrating the cultures of two such different companies — one a brash newcomer to the upper echelons of the telecommunications world, the other a onetime rebel that joined the establishment — is just one of the potential hurdles in the pending MCI-Worldcom merger.

Those hurdles are not likely to block the merger altogether, analysts said yesterday. But they could throw bumps in the path of a deal that would produce one of the world's most powerful communications companies.

That company will begin to take form today, when the companies intend to propose directors of the new company. Executives who spoke on condition of anonymity said that as of last night, the lineup consisted of 17 people: 6 officers from the combined corporation, 8 outsiders appointed by Worldcom and 3 outsiders appointed by MCI.

The proposed board would include at least one person who is not now on the board of either company.

The shareholders of the two companies are scheduled to hold separate votes on the deal after the board announcement. Each will be held far from the hotel in midtown Manhattan where Bernard J. Ebbers, Worldcom's chairman, and Bert C. Roberts Jr., his counterpart at MCI, announced their $37 billion pact in November. Worldcom's stock owners will meet in Jackson, Miss., MCI's in South Sioux City, Neb. But even if both votes are romps in favor of the deal, as expected, the agreement to merge will remain just that — an agreement, not a reality — for at least a few more months.

Regulators in Europe and the United States have deepened their inquiries into the antitrust implications of the deal because both MCI and Worldcom are major carriers of Internet traffic.

The two companies generally contend that the retail and wholesale, or "backbone," Internet markets should be considered a single market for the purposes of antitrust consideration.

In that case, the combined companies would control around 20 percent of the industry. But Jeff Keefe, an associate professor at Rutgers University's management school, said, "If you believe that there is a separate Internet backbone provider market, Worldcom-MCI would control somewhere between 48 and 68 percent

Continued on Page 20

The New York Times

March 11, 1998

Two Corporate Cultures Meet In the MCI-Worldcom Merger

Continued From First Business Page

of that market."

People close to the Justice Department's antitrust division, which is conducting the primary investigation of the deal, said the department was likely to demand that the combined MCI-Worldcom either divest itself of some of its Internet assets or assure the Government that competitors would be granted fair access to the company's systems.

There is no formal timetable for the department to finish its review, but people close to the investigation said it would probably be a few months before the department's antitrust chief, Joel I. Klein, decided what to do.

The length or intensity of a Justice Department investigation is, by itself, little indicator of its eventual outcome. The department subpoenaed crates of documents during its nine-month inquiry into the merger of the Bell Atlantic Corporation and the Nynex Corporation. In the end that deal sailed through without challenge.

In the case of Worldcom and MCI, analysts and people close to the investigation said, the department is likely to try to change relatively minor contours of the combined company rather than attempt to scuttle the deal altogether.

Some analysts believe MCI-Worldcom's greatest asset with regulators is the combined companies' potential ability to take on the regional Bells in local telephone markets.

"The Government thinks that the enemy of my enemy is my friend," said Scott Cleland, a telecommunications policy analyst for the Legg Mason Precursor Group in Washington. "And the Government's real enemy are the Bells. The regulators are more interested in breaking up the local monopoly than in long-distance competition."

In October, John W. Sidgmore, Worldcom's vice chairman, told The Washington Post that after acquiring MCI, Worldcom would look for ways to stop serving MCI's residential customers so it could focus on more profitable business accounts. The next day, Worldcom retracted that statement and said the company was committed to serving residential customers and to competing against the Bells for residential local phone customers.

The Government "bought it, hook, line and sinker," Mr. Cleland said.

"This is a classic case of a company's telling Wall Street one thing and Washington something else," he said. "Shareholders think that they won't spend a lot of money on the residential market, and Washington expects them to do just that."

If it were not for MCI's running up unexpectedly large losses in its local operation last year, the company would probably be a part of British Telecommunications P.L.C. by now.

The British carrier pressed MCI to renegotiate the two companies' merger agreement last year after learning of the losses. That opened the door for Worldcom.

Merging with either company would have been a cultural journey for MCI. But Worldcom is a very different sort of partner because it has made its reputation mainly on mergers and cost-cutting rather than on the quality of its telecommunications services, analysts said.

"Worldcom is especially strong at running an acquisitions machine," said Mark R. Bruneau, president of the communications and computing unit at Renaissance Worldwide, a consulting firm in Stamford, Conn. "MCI is especially strong at running a phone company. And those are very different skills."

WorldCom, MCI Probe Is Widened

By JOHN R. WILKE
and JARED SANDBERG
Staff Reporters of THE WALL STREET JOURNAL

The Justice Department widened its investigation of WorldCom Inc.'s proposed acquisition of MCI Communications Corp., signaling that the $37 billion transaction could face antitrust problems.

Regulators are focusing on how dominant the combined companies would be in Internet services, according to documents and people who have been interviewed for the investigation. If the combination is approved, industry analysts estimate the companies would control more than half of Internet traffic through the high-capacity cables and computers that form the backbone of the international data network.

The Justice Department recently hired outside experts to review the case. It has sent civil subpoenas to companies competing with WorldCom and MCI in Internet backbone traffic, including GTE Corp., International Business Machines Corp., Sprint Corp. and PSINet Inc. It also submitted a second formal request for information to WorldCom and MCI, a move that often signals that a deal is facing delay and further investigation.

The proposed transaction is already facing tough scrutiny in Europe. European Union antitrust regulators last week launched an investigation that could delay the deal by months. The European Commission said that it was "concerned about the parties' combined market share in relation to the supply of Internet backbone services" and that these include "the provision of a network of high-capacity, long-distance connections capable of carrying data nationally and internationally."

The Justice Department's 13-page civil subpoenas, known as civil investigative demands, were dated Feb. 12 and sent to most companies that operate Internet "backbone" networks. Among other things, the companies were ordered to conduct a series of tests that gauge traffic flow from their networks and determine the level of their reliance on similar networks run by WorldCom and MCI. They were also asked highly technical questions about their data-traffic patterns and volume and the interaction of their networks with other Internet networks.

The fate of the WorldCom-MCI deal could help shape the future of the Internet and how its services are priced and delivered. Major Internet access providers strike so-called peering agreements with one another to exchange traffic at interchange points in a free manner. If one

Please Turn to Page A8, Column 1

WorldCom-MCI Study Widens

Continued From Page A3

entity controls the lion's share of networks, it could easily degrade the performance of rivals by neglecting such exchange points. At the same time, critics say, WorldCom and MCI could ensure that customers of their own Internet access enjoy speedy connections and raise the cost to rivals.

'Preposterous' Charges

John Sidgmore, WorldCom vice chairman and chief executive officer of its big Internet access unit, UUNet Technologies, denied that the industry would become any less competitive if MCI and WorldCom were combined. He called charges that the company could degrade competitors' networks "preposterous" and indicated that price boosts would be counterproductive for a combined entity. He also disputed that a combination would dominate Internet traffic, saying the merged companies would have only 20% of the industry's revenue.

He also was largely unfazed by competitors' charges and the government's new actions. "It's not a surprise that this is going to be a lengthy and complex deal in an industry where everybody sues everybody about everything," Mr. Sidgmore said. "That's part of the communications industry today."

Few of the insiders following the government investigation think the MCI-WorldCom deal will be stopped outright. More likely, they say, the department will demand safeguards to encourage competition and restrain pricing, and could ask for the sale of some assets. One possible approach, these people said, would be measures to protect "openness" in the network among peers, and allow small networks that want to connect to their larger peers to do so freely.

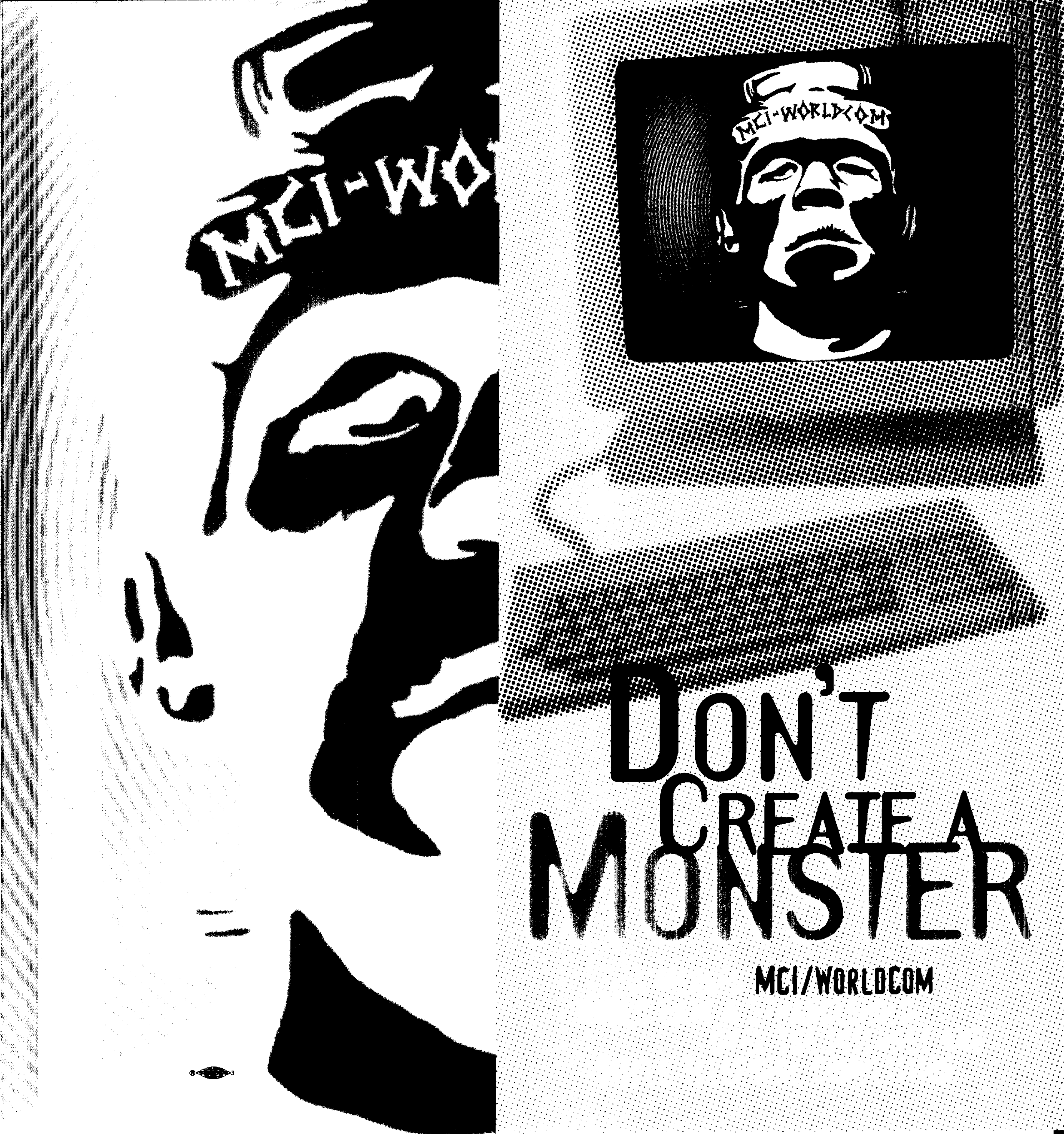
In the subpoenas, the Justice Department asked that the Internet companies conduct tests March 1 through March 7 that measure the flow of their traffic to other networks. The results are expected to help the agency determine whether MCI and WorldCom would together control so much of the Internet that they could have an adverse impact on competitors and ultimately Internet users.

Sprint's Position

"If you allow one player to acquire over 50% of the market, they are in a position to degrade the connection or increase the cost of connections," said J. Richard Devlin, chief counsel at Sprint. A merger, he added, "would potentially short-circuit the growth of this global-information network and fundamentally change its course."

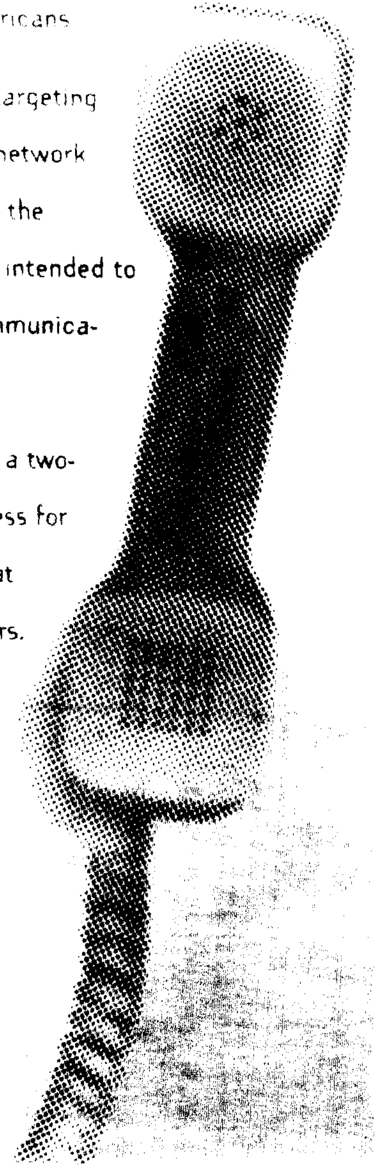
ternet competition is increasing, not decreasing. He added that there are nearly 40 backbone providers, 4,000 smaller Internet service providers and new entrants such as Qwest Communications International Inc. laying massive networks of their own.

Indeed, one of the key issues that the Justice Department must consider is the difficulty new companies face in entering the Internet backbone business. If the barrier to entry is low, officials might be somewhat more inclined to approve the merger even if the market is concentrated, because other companies could enter. To evaluate this and other issues, the department recently hired two prominent antitrust experts, Carl Shapiro, a former Justice Department official now teaching at the University of California at Berkeley, and Michael Katz, former chief economist of the Federal Communications Commission.


MCI-WORLDCOM
DON'T CREATE A MONSTER
MCI/WORLDCOM

UNIVERSAL

The merger would represent a giant backward step from a primary goal of the 1996 Telecommunications Act to foster access to the Information Highway for all Americans.



The MCI/WorldCom strategy of targeting business customers for its own network will divert critical revenues from the Universal Service Fund, which is intended to ensure affordable access to communications services.

The thrust of the merger points to a two-tiered Information Highway - access for high-valued corporate customers at the expense of individual customers.

For the average American, it spells higher rates for basic services and delays in accessing the important new information services of the future.

COMPETITION

An MCI/WorldCom combination would eliminate one aggressive competitor both to AT&T in long distance and to the Bell companies in local phone service.

For residential customers, the merger means a retreat from MCI's planned expansion into local residential service and the loss of an alternative to the Bell companies and GTE.

Moreover, MCI/WorldCom's new plan to focus mainly on lucrative business customers in 100 urban markets will take revenues away from the regulated phone companies, putting pressure on the Bells to either raise customer rates, curtail service improvements - or both.

AMERICAN

The merged MCI/WorldCom plans to reduce investment local telephone network development by $2.8 billion.

In addition to immediate job cuts ("synergies") envision the merger, reduced MCI/WorldCom investment in net sales and marketing represents a loss of employment growth by at least 75,000 jobs by the year 2000 - in d terms, a loss of $5 billion to American communities.

Here again, a merged MCI/WorldCom runs counter t intent of the Telecommunications Act, that of creati good-paying, high-skilled Information Age jobs to bol America's economy in the next century.

AN ATTEMPT TO SEIZE THE INTERNET

A merged MCI/WorldCom overnight would own more than 63 percent of the Internet backbone, the central platform of the Net that connects thousands of service providers who, in turn, put the growing millions of individual Net users on-line.

MCI/WorldCom, with its overwhelming control of the Internet backbone, would have the power to set prices restrict access and squeeze out many competing Internet service providers.

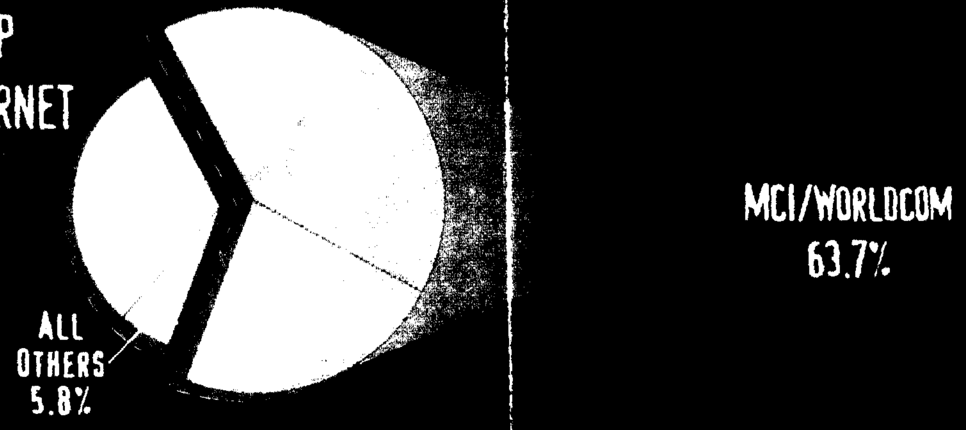
In effect, MCI/WorldCom will have cornered a market valued at $23 billion by 2000 and virtually control the co communications infrastructure of the 21st Century. Many experts today predict that the Internet eventually overtake the public switched phone network as the primary channel for voice, data and video communications.

Since the Internet is not regulated – and neither are MCI or WorldCom – regulators have only a brief window opportunity, right now, to protect the public by blocking this anti-competitive deal.

CORNERING THE INTERNET MARKET

A merged MCI/WorldCom would own more than 63 percent of the U.S. Internet backbone, the key to our communications infrastructure for the 21st century. Virtually the entire Internet backbone would be in the h of two corporations, with Sprint running a distant second to the MCI/WorldCom communications giant.

% OWNERSHIP OF THE INTERNET BACKBONE



WHAT

DO...

hone, fax or e-mail your U.S. senators and representatives and President Clinton and Vice President Gore. Tell them: **MCI/WorldCom is a monstrous idea. Pull the plug on this deal now.**

COMMUNICATIONS WORKERS OF AMERICA
501 THIRD ST. N.W.
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FOR MORE INFORMATION:
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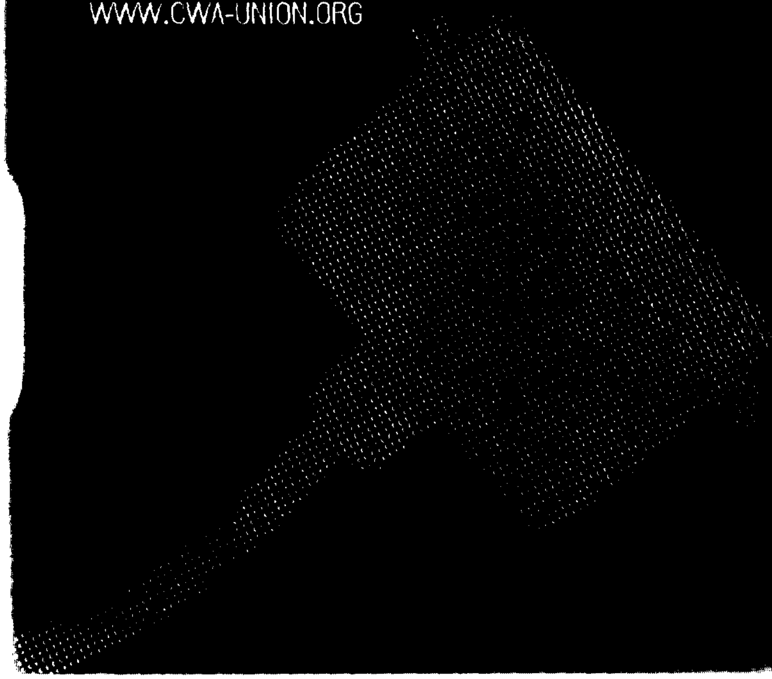

If regulators and elected officia permit the combination of MC and WorldCom, they will have okayed the biggest grab for America's vital economic resources since the days of the railroad robber barons – a powe play to dominate the Informatio Highway itself.

Reversing two decades of pro-competiti telecommunications policy, an MCI/WorldCom alliance would result

- Near monopoly control over the Internet.
- Reduced competition – and higher rates – both in local and long distance telephone service.
- A setback to providing universal access to information services of the future.
- The loss of more than 75,000 American jobs.

CWA NEWS

FOR IMMEDIATE RELEASE
March 13, 1998

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NADER AND BAHR: PROPOSED WORLDCOM/MCI MERGER WOULD HURT CONSUMERS, CREATE INTERNET MONOPOLY

WASHINGTON – March 13, 1998 – The proposed WorldCom/MCI merger should be rejected because it would allow the combined company to wield monopoly control over essential Internet backbone services, consumer advocate Ralph Nader and Morton Bahr, president of the Communications Workers of America, declared today at a symposium of top Internet experts.

"The Federal Communications Commission and the Department of Justice need to stop this merger cold, so consumers can benefit from competition, rather than suffer unnecessarily from monopoly," Nader said. "The merger would hurt consumers in many ways, and would offer them no benefits whatsoever." Nader warned that the companies want to impose new usage-based pricing on backbone services, which could give them the power to eliminate small Internet service providers (ISPs).

Bahr said: "Because the merged company would also own some of the largest ISPs, it would be able to use this bottleneck control in a discriminatory fashion to favor its own ISPs through cross-subsidies, predatory pricing or other practices."

"After the merger, WorldCom will control more than 60 percent of the Internet, which is the key to the communications infrastructure. Virtually the entire Internet backbone will be controlled by just two providers, with Sprint running a distant second behind WorldCom. This is not healthy competition. Regulators have only a brief window of opportunity to prevent the concentration of ownership of the Internet from falling into the hands of a single owner," Bahr added. "This deal is anticompetitive and violates federal antitrust standards."

The merged company would control more than 60 percent of the Internet backbone, eliminating each other as a major competitor and creating one dominant Internet backbone provider, they said. National Internet backbones, which connect all consumers and Internet service providers to the Internet, are the core of the Internet infrastructure.

- more -

Bahr and Nader opened the "WorldCom/MCI Merger: Is the Internet at Risk?" symposium. The symposium was co-sponsored by the Consumer Project on Technology and the Communications Workers of America.

The conference brought together leading Internet experts, including some who helped develop the Internet, as well as software creators, Internet service providers and academic experts, who looked at the anti-competitive impact of the proposed WorldCom/MCI merger.

In recent days, the U.S. Department of Justice has widened its antitrust probe of the proposed merger, the FCC has extended its comment period on it, and the European Commission has launched a detailed investigation of the combined companies' market share of the Internet backbone.

"WorldCom and MCI have both said they want to impose new usage-based pricing on Internet backbone services," Nader said. "This did not happen in the competitive market, but experts say it will be more likely once a single firm wields far more control over the Internet's backbone. WorldCom is already being accused of a number of anticompetitive practices in Internet peering, and this would give WorldCom even more power to eliminate small ISPs who now compete with WorldCom."

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MCI WorldCom Investor Alert #1

Increased Regulatory Risk and Delay for the Merger

MCI's and WorldCom's SEC filings, press releases, and analyst reports based on company statements underplay the real exposure this transaction has to regulatory risk. We believe WorldCom and MCI have downplayed the uncertainty related to the merger receiving the required approvals in its current form. Furthermore, we believe the regulatory risks could undermine shareholder value over the short and medium term.

The Federal Communications Commission has placed the burden of proof on the applicant in merger reviews. Information provided by MCI/WorldCom falls far short of meeting that standard. The FCC has four groups of attorneys and economists reviewing the proposal for negative impacts on the Internet, long distance, local service, and international traffic.

For the same reasons that Wall Street has endorsed the merger, regulators have heartburn. There are serious policy implications in each of these areas. Most serious is MCI/WorldCom's domination (or near monopoly) of the Internet backbone industry, and its ability to whipsaw that power into control over other segments of the Internet industry, particularly the Internet Service Provider (ISP) business in which WorldCom already has a major presence. Another concern that the FCC has is that the merger will lead to significant reduction in capital investment and operating expense in the local telephone market. This reduction of MCI/WorldCom spending on local infrastructure rebuffs a major goal of the Telecommunications Act of 1996.

MCI/WorldCom is caught in the awkward position of highlighting the estimated synergies to investors and Wall Street, while downplaying the same figures and facts to regulators.

Opposition to the merger is increasing in breadth and volume. As of January 26, 1998, the following organizations have made FCC filings in opposition to the merger:

AFL-CIO
Alliance for Public Technology
Bell Atlantic
BellSouth
Coalition of Utah Independent ISPs
Communications Workers of America
Consumer Project on Technology
GTE
Inner City Press/Community on the Move
Rainbow/PUSH Coalition
Simply Internet, Inc.
TBM Communications, Inc.
Telestra Corp.
United Church of Christ
United States Internet Providers Association

MCI/WorldCom will attempt to create the illusion of deal momentum with early shareholder votes, but the regulatory investigations are just beginning. The complexity of the issues and FCC workload make an early decision unlikely. The recent press conference held by FCC Chairman Kennard indicates a long agenda and by its omission suggests MCI/WorldCom is nowhere near the top.

Twenty-two state regulators must also approve the merger. There are briefs in opposition to the merger on file in several key states. In California, the Public Utilities Commission has historically taken strong consumer-based positions, and the high density of Internet-related businesses in that state will ensure a long and detailed review. A Morgan Stanley report dated January 20, 1998, states that WorldCom estimates that state approvals are 20% complete and that this will be the key gating issue on the timing of the closing of the deal.

The U.S. Department of Justice must also approve the merger. In its Microsoft actions, DOJ has demonstrated an aggressive approach towards network monopolies and a detailed understanding of the special anti-trust issues stemming from the underlying economics of high-technology, network-based industries. If DOJ likens MCI/WorldCom's control over the Internet backbone to Microsoft's control over the operating system business, the merger's approval will be long and difficult. MCI/WorldCom has yet to provided the necessary data to permit the DOJ to analyze the transaction. DOJ will take a long, hard look at this transaction because of the importance assigned to the competitive development of all aspects of the Internet. We believe that Wall Street analysts are overly optomistic in predicting that the proposed merger may receive anti-trust clearance as early as the end of the first quarter of 1998.

Additionally, a bipartisan task force of twelve state attorneys general has recently been formed to review the MCI/WorldCom merger.

The European Commission, with broad powers to impose conditions on the merger, has yet to act. The EC was notified of the merger on November 20, 1997. Typically the EC conducts a one-month rview to determine if a detailed four-month review is required. According to a press report from Brussels on February 10, 1998, the EC had declared MCI/World notification incomplete and opened the window once again for public comment.

Meanwhile, other organizations have notified the EC of their opposition to the merger. The opponents include the Postal Telephone and Telegraph International, a consortium of telecom industry unions throughout Europe. Other foreign telecom companies, such as Australia's Telestra Corp., are also very concerned about WorldCom's dominant global presence because of the U.S.'s importance in global Internet traffic flows.

While one cannot predict what the EC will do, we believe it will trigger a formal four-month, detailed "Phase II" investigatory review which would have the impact of further delaying the projected merger timeline and increasing the transaction's exposure to regulatory risk.

Finally, the EC has imposed conditions on other large mergers that have negative anti-trust implications and endanger the competitive position of European firms. For example, the EC imposed several conditions on the Boeing McDonnell Douglas merger. These conditions prevent Boeing from (1) "unduly" interfering with relationships between its suppliers and competitors; (2) leveraging McDonnell product customer support activities for new Boeing aircraft sales; (3) entering into exclusive supplier agreements with aircraft purchasers for 10 years; and (4) enforcing existing exclusive agreements with American, Delta, and Continental.

If the EC were to impose similar conditions on MCI/WorldCom, many of the projected benefits that underpin the generation of shareholder value in this transaction would be lost.

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